

3

Coleco Industries, Inc. Interim Report

September 29, 1984

COLECO



To Our Stockholders:

Sales for the three months ended September 29, 1984 totaled \$181.3 million, an increase of 58% over sales of \$114.5 million for the year ago quarter. Earnings of \$3.8 million or \$.23 per share were 64% greater than earnings of \$2.3 million or \$.14 per share for last year's quarter.

Sales for the nine month period totaled \$534 million, an increase of 27% over sales of \$421 million for the first nine months of 1983. Earnings of \$13.4 million or \$.82 per share compared with earnings of \$27.6 million or \$1.71 per share for the year ago period.

Coleco's continuing strong sales performance was due to the extraordinary, worldwide success of the *Cabbage Patch Kids* product line. During the first nine months of 1984 Coleco shipped in excess of \$300 million in *Cabbage Patch Kids* products, about five times the amount shipped during all of 1983. Consisting of the 16" *Cabbage Patch Kids* dolls, *Preemies* (14" infant dolls), *Koosas* (pets), 5" collectible *Pin-Ups*, eight play accessories and a variety of clothing, the *Cabbage Patch Kids* product line represented approximately 85% of Coleco's sales for the third quarter, with the balance primarily in other toy products.

During the third quarter, Coleco began shipments of hardware peripherals for the *ADAM Family Computer System*, including a 5¼" disk drive, *ADAMLink* telephone modem and 64K RAM memory expander. A wide variety of new software for *ADAM* was shipped, including early learning programs, educational software, home information management software and a number of licensed entertainment titles. Approximately ten additional software programs are scheduled for shipment during the fourth quarter, with a larger number planned for shipment during the first quarter of 1985.

To generate increased consumer awareness and purchasing interest in *ADAM*, Coleco has initiated the *ADAM Family Computer* Scholarship Program, through which consumers purchasing *ADAM* between September 1 and December 31, 1984 will receive a \$500 college scholarship for their eligible children. This promotion is reaching consumers through an extensive advertising campaign, including TV, radio commercials and ads in consumer magazines. Coleco is also supporting *ADAM* with TV commercials that emphasize the important role *ADAM's* word processing features can play in helping students with their school work.

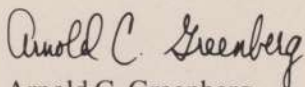
The costs of promotional and sales support programs for *ADAM* and a reduction in value of certain *ADAM* and other consumer electronics assets decreased third quarter

pretax earnings by approximately \$30 million. While continuing advertising, promotional and support expenses will cause fourth quarter sales of *ADAM* to be unprofitable, these activities are expected to increase the rate of *ADAM* sales from their present modest level and correspondingly reduce *ADAM* inventory. Although plans call for the introduction of additional consumer electronics products next year, near term uncertainties in the marketplace are such that operating losses incurred in this product segment for 1984 might offset earnings from our Toy business.

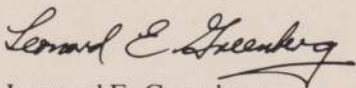
The Company recently placed privately with institutional investors \$13.5 million of 11% Convertible Subordinated Debentures due 1989, and exchanged and retired the entire \$41.5 million 10% Convertible Subordinated Debentures issued in May, 1984 with \$41.5 million of the new 11% Convertible Subordinated Debentures. Proceeds of the offering are being used for working capital purposes.

Worldwide sales of licensed *Cabbage Patch Kids* products manufactured by companies other than Coleco have been forecasted by the licensor to be approximately \$500 million at wholesale in 1984 and even higher in 1985. As co-developer of the *Cabbage Patch Kids* licensing program, Coleco benefits substantially from the licensing income generated from these sales.

Coleco began the fourth quarter with an unshipped order backlog for *Cabbage Patch Kids* products in excess of \$300 million, approximately \$200 million of which is planned for shipment by year-end. In response to the continuing escalation of consumer demand for these products, Coleco will maintain current capacity level production into 1985. The Company plans to expand the *Cabbage Patch Kids* line next year with many new products and also make other important product introductions.



Arnold C. Greenberg
President and
Chief Executive Officer



Leonard E. Greenberg
Chairman

October 23, 1984

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

Net Sales	.....
Costs and Expenses:	
Cost of Goods Sold	.....
Selling and Administrative Expenses	.....
Interest Expense	.....
Earnings Before Income Taxes	.....
Income Tax Provision (1)	.....
Net Earnings	.....
Net Earnings Per Share	.....
Average Shares Outstanding	.....
(1) The income tax provision for the three months ended October estimated annual effective income tax rate.	

CONSOLIDATED BALANCE SHEET SUMMARY

(September 29, 1984 and October 1, 1983 are Unaudited)

Assets:

Accounts Receivable	.....
Inventories	.....
Other Current Assets	.....
Total Current Assets	.....
Property, Plant and Equipment (Net)	.....
Other Assets	.....
Total Assets	.....

Liabilities and Stockholders' Equity:

Notes Payable	.....
Accounts Payable	.....
Other Current Liabilities	.....
Total Current Liabilities	.....
Long-Term Debt	.....
Other Liabilities	.....
Subordinated Debentures	.....
Convertible Subordinated Debentures	.....
Stockholders' Equity	.....
Total Liabilities and Equity	.....

Three Months Ended		Nine Months Ended	
Sept. 29	Oct. 1	Sept. 29	Oct. 1
1984	1983	1984	1983
(In Thousands)			
<u>\$181,268</u>	<u>\$114,480</u>	<u>\$533,978</u>	<u>\$420,988</u>
...			
<u>105,614</u>	68,110	<u>342,848</u>	235,639
...			
<u>58,745</u>	38,773	<u>142,473</u>	124,057
...			
<u>10,658</u>	5,135	<u>28,312</u>	12,673
<u>175,017</u>	112,018	<u>513,633</u>	372,369
...			
<u>6,251</u>	2,462	<u>20,345</u>	48,619
...			
<u>2,473</u>	160	<u>6,988</u>	21,042
...			
<u>\$ 3,778</u>	<u>\$ 2,302</u>	<u>\$ 13,357</u>	<u>\$ 27,577</u>
...			
<u>\$.23</u>	<u>\$.14</u>	<u>\$.82</u>	<u>\$ 1.71</u>
...			
<u>16,292</u>	16,468	<u>16,299</u>	16,172

er 1, 1983 includes a \$682,000 credit resulting from a decrease in the

	Sept. 29	Dec. 31	Oct. 1
	1984	1983	1983
(In Thousands)			
.....	<u>\$243,279</u>	\$158,022	\$151,749
.....	<u>181,716</u>	164,664	161,270
.....	<u>39,674</u>	84,404	47,756
.....	<u>464,669</u>	407,090	360,775
.....	<u>59,599</u>	58,183	45,420
.....	<u>12,488</u>	12,259	5,280
.....	<u>\$536,756</u>	<u>\$477,532</u>	<u>\$411,475</u>
.....			
.....	<u>\$160,800</u>	\$166,420	\$129,854
.....	<u>66,301</u>	81,385	39,304
.....	<u>64,302</u>	51,508	41,177
.....	<u>291,403</u>	299,313	210,335
.....	<u>23,871</u>	26,485	21,853
.....	<u>13,298</u>	10,028	2,967
.....	<u>52,340</u>	52,287	52,340
.....	<u>52,658</u>		
.....	<u>103,186</u>	89,419	123,980
.....	<u>\$536,756</u>	<u>\$477,532</u>	<u>\$411,475</u>







Coleco Industries, Inc.
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